

## **THE ODA REFORM: ITS IMPACT ON THE RELATIONSHIP OF JAPAN – INDONESIA**

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### **Abstrak**

Sebagai negara terbesar nomor dua di bidang ekonomi (setelah AS), pilihan kebijakan politik luar negeri Jepang untuk menjadi negara donor terbesar (*aid super power*), dan bukannya sebagai negara super power secara politik sangat menarik untuk dipelajari. Paket bantuan Jepang untuk negara-negara berkembang, yang disebut ODA (*Official Development Assistance*), mengalami puncaknya pada tahun 1992 dan mengukuhkan negara ini sebagai negara donor terbesar di dunia.

Mulai tahun 2002 Jepang melakukan reformasi kebijakan ODA yang disebabkan oleh beberapa faktor seperti insiden 911 dan penurunan tingkat perekonomian di dalam negeri. Hal ini sekaligus mengakhiri dominasi Jepang sebagai negara donor terbesar. Paper ini akan membahas reformasi ODA tersebut dan mengaitkan dampaknya terhadap Indonesia, sebagai negara penerima ODA terbesar, dan hubungan kedua negara ini pasca reformasi ODA.

*Kata kunci: Official Development Assistance (ODA)*

### **A. Introduction**

As the world's second largest country in term of economic (only next to US), Tokyo's decision to become merely the aid super power, instead of political super power, is very interesting to observe. Because of its economic strength, Japan is in capable in modernizing its military equipment, thanks to the so-called miraculous economic growth starting from the 1960s. All of those facts showed that Japan has all the requirements to

become a super power just like the US. However some factors have limited her intention to grow more as a politically leading country, even in the East Asia region. Such factors as the memory of the defeat in the WW II, the article 9 in the constitution, and the pacifist movement in domestic area have been played dominant role in reducing the intention to play more.

Those internal factors together with the external one, such as its neighbors' hostility due to Japan invasion during

WW II, apparently has forced Tokyo to formulate its foreign policy in such way that it can focus only on the economic development. For many years since the end of WW II, Japan campaigned as the peace loving country. It means that in the foreign policy Japan would avoid in any involvement in the area of international political conflict. It's been observed by Arase that Japan's postwar foreign policy has been called a "low cost, low-risk foreign policy" that allowed Japan to focus on economic development while avoiding costly military and political burdens (Arase, 1993). Regarding to this fact, some observers also maintained that one of Japan's economic success factors was the low spending in the military budget. Although other observers would not agree with such premise (see Johnson, 1982), it can be denied that its foreign policy, at least until the 911 incident, had been dominated by the so-called aid diplomacy.

The foreign aid has been largely used since the year of 1976. In fact the government enjoyed the massive popular encouragement decision to play more in the economic field (i.e. foreign aid policy). Japan became the great aid power since the year of 1992, when its aid (ODA) amount was the highest among OECD countries.

There were some critics regarding Japanese aid policy, both from its fellow OECD countries and from donor recipient countries. The US as its close ally since

the end of WW II, heavily criticized Tokyo policy on foreign financial assistance as an excuse to the military burden-sharing with Washington. When the Gulf war took place in 1990, Washington put a pressure on Tokyo "to do more" than just to give a \$1 billion package to the multinational force and middle-east countries that affected by Iraq sanction. On the other hand, the critic that often said by recipient countries is that the aid is heavily tied (i.e. the grants and loans to be used for the purchase of Japanese export). It seemed that Tokyo had made some responds to those critics, especially after 911 incident occurred. The incident has changed the map of international politics and, from this paper's point of view, it also induced the ODA scheme as well. The reform of ODA was conducted to meet the global political and economic changes. In addition it is also important to note that the reform of the scheme was carried out also in response to some domestic factors, such as public scrutiny and the economic declining.

The reform of the ODA scheme will be discussed in this paper. Also this included the impact of the reform to the relationship between Japan and recipient countries. In this matter, I would like to use the case study of Indonesia, as the major recipient of Japan's ODA, especially regarding the Aceh Free Movement case.

## **B. Japan's Foreign aid and ODA**

The ODA policy actually first implemented in the 1950s and it was relatively ignored as an economic policy and not be part of overall national diplomacy. However since 1980s following the economic high growth in the 1960s, Japan contribution in the economic aid to the developing countries has become the second largest, only next to the US. And enters the 1990s, it became the number one donor country.

The ODA scheme since 1950s has been through some changes. According to Yasutomo (1989), this evolution occurred in three phases. Starting from the mid 1950s to 1973 constituted the first phase. In this phase the aid was seen as reparation arrangements. The aid was given to the Asian countries those were invaded by Japan in the WW II. The main objective was, of course, economic. Japan, then, was in a high growth stage, and it required a lot of raw material which it can acquire from, mostly, the south-east Asian countries. The political motive was relatively minor at this stage. As a Japanese government official acknowledges: "In the 1960s, the main motives for Japan's economic cooperation were to promote its exports and assist its industries in overseas investment.... Promoting commercial and industrial interest was the main purpose of such cooperation" (Koichiro Matsuura, 1981).

The second phase occurred in era between 1974 until 1979. Yasutomo maintained that two developments in particular triggered this take off: PM Tanaka's trip to ASEAN in January 1974, and the OPEC oil shock in the winter 1973-74.

Tokyo was shocked to the negative reaction of the citizens in Jakarta and Bangkok during Tanaka's trip. Those demonstrations were not only because of the bad memories that still remained of the Japan's invasion in those countries, but also during these times Tokyo was mainly focus on the commercial objectives in making relationship with Asian countries. The focus on self-commercial benefit, while neglecting the local-social benefits, such as salary adequacy, working-environment safety, job security, pollution, etc, which was very poor in quality has caused the riot to occurred. This event made Tokyo began to focus in making good relationship with such countries to secure its economic benefits also, more important, political one. The implementation of this intention was a pledge of \$1 billion dollar for five ASEAN regional projects. This pledge was seen as the center-piece of the Fukuda doctrine (name after the PM Fukuda). We can see here, Tanaka and his successor moved beyond purely commercial objectives to a recognition of aid's usefulness as a political-diplomatic tool in the region.

Between 1979 and 1985, ODA emerged as an increasingly flexible multipurpose and multi dimensional pillar of Japan's overall policy as maintained by Yasutomo. In early 1980s government refer to "aid" and "ODA" to differentiate the commercial and development use of economic assistance. The Government in the era of Prime Minister Takasone began to see aid as a potentially positive means of helping to mitigate economic friction with trade partners.

### **C. The Reasons for Aid Policy**

Japan has been enjoying its economic development for the past four decades. The economic size of this country is now ranked as the second largest in the world. The high economic growth also induced in other area, such as military. Although based on the article 9 and Yoshida Doctrine the military expansion is very limited and remains controversy, yet the amount of money spent for military budget is relatively high. For the world's second largest country in term of economic, the limitation of 1% of GNP for military budget is enough to enable Japan modernized its military equipment.

The fact that Japan has both economic and military strength is enough to convince everyone that this country has the 'ingredient' to become a super power country just like the US. However the empirical practice showed that Tokyo was unable to play a dominant role in the world's politic. In fact it prefers to stay

focus in the economic matter by giving more and more aid to the developing countries while receiving the raw material needed to support its domestic industrialization and at the same time to open market for its products in those countries.

This kind of political practice was not without any critics. The US as the main ally since the post WW II often contended its foreign policy, especially regarding military contribution to the "world peace" defined by the US. When the Gulf war took place on 1990, the US put a pressure to Tokyo to join with ally military force. Yet, Tokyo decided to give financial assistance instead of dispatching military force. This policy was disappointing Washington. This event declined the relationship between these two countries.

In his paper, Yasumoto explained why Japan chose to become an aid super power instead of political super power? At least there are 5 reasons for this:

1. Because it is there: of all diplomatic tools, the Japanese find aid convenient and available.
2. Because it works: Aid has been an effective diplomatic tool for Japan.
3. Because it improves Japan's national prestige
4. Because it's popular
5. Because it provides the Japanese with a glimpse of a desired future

If we examine deeper all of those 5 factors, some of them are not relevant

anymore to the recent phenomena. The ODA is not “there” anymore since it has been the source of problem of the relationship between US and Japan. The US, as already explain above, often criticized this kind of policy. The case of gulf war that made the high tension between these two countries had haunted Japan, that now under Koizumi administration Japan became more obedience to the US demand.

The ODA is also no longer gaining the, at least, most popular support. The economic declining in Japan, together with some accuses of ineffective implementation has raise intensive demand for the scheme reform. In this case the Yasumoto theory that mentioned about the popularity of ODA scheme is not applicable anymore. This fact also implied that ODA was not the most convenient and available tools of national diplomacy, like it used to be. The pressure from people and the Diet regarding the cut of the budget for the ODA makes it difficult for the government to formulate the scheme in such way to gain its bargaining position in the international politic.

In fact the issue of reform will be the center point of discussion of this paper. This reform, however, would impact on the changing relationship between the donor and recipient countries in both ways, positively and negatively. Indonesia as the main recipient country of the scheme will be the good case of

this reform especially when it's connected to the recent issue on the Aceh Free Movement.

#### **D. Japan's ODA to Indonesia**

The ODA scheme has the important role to the development in Indonesia. Since the beginning of the scheme Indonesia has been the top recipient countries of Japan's bilateral ODA. In 1999 it received US \$ 1,605.83 million, or 16.30 percent from total. While in 2000, it received US \$ 970.10 million (10.06%) and in 2001, the amount was US \$ 880.07 million (11.54%).

If we look at the figure above, the amount of ODA is decreasing. Actually this didn't only happen to Indonesia. In fact in overall the amount of money in the ODA scheme was reduced by Japanese government due to some reforms. Some factors have been caused the reducing of the ODA amount. However the main factor was the economic declining that occurred in Japan. The reducing of the ODA in 2001 also marked the end of the era of aid super power.

The basic factor of Japan's ODA to Indonesia is that Indonesia geographically is important to Japan in terms of sea transportation and provides oil, gas and other natural resources. This kind of relationship has been very important to Japan in the last 20 years.

In the year 1998 and 1999, following the financial crisis that hit south-east Asia

countries, Japan arrange the huge amount of emergency financial assistance packages. Those packages were sent through Program sector loans by Japan Bank for International Cooperation (JBIC), The New Miyazawa Initiative by Ministry of Finance, Special Yen-loan Program by Ministry of Economic, Trade and Industry, also through World Bank and Asian Development Bank.

Among those channels used, the New Miyazawa Initiative and Special Yen-Loans are especially for the countries that suffered from the financial crisis. The objective of the initiative, that was announced in October 1998, is to help the Asian economic recovering by giving the middle and short term loan. In addition, according to Kawakami, it seemed that Japanese government hope this initiative would be the triggered to develop the support mechanism of regional currency, that is Yen will play significant role in Asia (Sanoko Kawakami, 2004). The amount of 162.4 billion yen has been given to Indonesia in 1998 and 1999 based on the Miyazawa Initiative.

On December 1998 METI announced the Special Yen Loan scheme to Asian countries to support the Miyazawa Initiative. This loan in fact used for recovering the domestic economic of Japan itself because it's totally tied to the procurement of Japanese export. The total amount of 600 billion yen from this

loan must be used to purchase the goods and services from Japan's companies. From this point of view, we can see that ODA is attached with some commercial requirements.

### **E. The ODA Reform**

As it's mentioned above, in 1998 Japan end its dominance as the top donor country for the first time since 1992. This was also for the first time Japan's ODA is a controversial public issue. As Altbach maintained, politician and their constituents are engaged in a heated national debate over the need to reform the nation's powerful government ministries, and at the same time, to reduce the swelling public sector debt. The recent wave of scandals and bankruptcies that have shaken the financial sector, together with the economy's continued sluggishness, has focused even more attention on these issues. Japan's foreign aid program, long insulated from public scrutiny, has come under fire because of its relationship to both administrative and fiscal reform.

Starting from 2002, following the global change (post 911 incident) the ODA scheme has been through some reforms. The new initiatives in the scheme include: lower-cost loans for environmental or "green" ODA, increased efforts to foster private-sector participation in infrastructure development projects and expanded technical cooperation that directly

involves more ordinary Japanese (so-called citizen-backed ODA).

It is very interesting to observe these new initiatives, because as Altbach mentioned, these changes are likely to be the beginning –not the end– of a period of experimentation and change in the nation's development assistance program. In this case I would like to spotlight the last point of these changes, that is the citizen-backed ODA. I also would like to connect it with the rise of NGO's movement in Japan recently.

#### **F. The NGO in Japan at a glance**

The rise of NGOs movement in Japan first started in the late 1980s and gained greater momentum in the early to mid 1990s. As Reiman explained, from the mid 1990s, a few changes in the political process and the political opportunity structure have been occurring in Japan and this greater space for NGO participation provides another part of the explanation for why new groups were able to form and grow in the 1990s. Interactions between the NGO and government are no longer the tense rarities they were in the 1980s and earlier (Reiman, 2001).

Moreover as Reiman said in his paper about the deeper involvement of NGOs in the political process, in 1997, the Ministry of Finance (MOF) started a similar quarterly dialogue with advocacy NGOs interested Multilateral Development Bank (MDB) issues. And in 1998, the Japan

International Cooperation Agency (JICA) also started quarterly meetings with international development NGOs. In addition to these now institutionalized dialogues, in the late 1990s NGO representatives started to also appear on advisory councils at both MOFA and MOF and are currently on a MOFA committee set up to review the process of reform of official development assistance (ODA) policies, procedures and institutions. When Japan hosted the G-8 Summit in Okinawa in 2000, it became the first government to officially include NGOs at a G-7 Summit by sponsoring an "NGO Center" and assigning a MOFA official to handle NGO relations with the creation of the new post of "Ambassador in Charge of Civil Society

Up until now there are number of NGOs in Japan. The main groups interested in the areas of Japanese ODA reform and MDBs include: the Pacific Asia Resource Center (PARC), Friends of the Earth Japan (FOE-J), the Japan Tropical Forest Action Network (JATAN), the Japan International Volunteer Center (JVC), Mekong Watch, Japan APEC Monitor NGO Network, Japan Indonesia NGO Network (JANNI), the Institute for Alternative Community Development (IACOD) and the ADB Fukuoka NGO Forum. All these NGOs would play bigger role in the future as the ODA reform enable them to have a deeper involvement.

### **G. Politically String Attached on Aceh?**

The NGOs that concern in ODA program have the contribution to the reform of the scheme. They so far had been urged for more transparency and greater accountability. Moreover by the new reform of the ODA scheme, these NGOs have the opportunity to influence the decision making process and the evaluation of ODA implementation. This kind of new mechanism will bring the new consequence for the implementation itself.

On the other hand some NGOs also concern about the implementation of human rights and democracy in recipient countries. In case of Indonesia, the handling of Aceh Free Movement (GAM) has been the spotlight of criticism among the international NGOs, including the one in Japan. As it has widely known, Aceh is one of Indonesian provinces that recently experienced instability due to some riot that demanding for its own liberty. The Indonesian government reacted with military operation after several talks have been stalled.

Tasuku Iizuka, the spoke person of NGOs that concern about Indonesian human rights in Tokyo urged that the Government of Japan to put pressure on Indonesia to allow its representatives to enter Aceh. He maintained that the problem of Aceh cannot be solved in the military way. He also pointed out at the Japanese government policy on this

matter is too weak because it always state that Japan would not interfere the domestic conflict in Indonesia. It seemed that Tokyo doesn't want to loose a good relationship that has been established so far between these two countries. The tension between the two would endanger the Japan's commercial interest, since Indonesia is one of main suppliers of raw materials for Japan.

It seemed that the government of Japan can neglect the demand of NGOs to put pressure on Indonesia regarding Aceh. Moreover, the commercial interest of the big business that support LDP politician would remain the main priority in the Japanese foreign policy on Indonesia. However, if we should take a look at the new ODA regulation that potentially enable these NGOs to do more. The ODA scheme to Indonesia that so far has been the main source of fund in the development can be an effective mean to put the political pressure regarding human rights and democratization implementation in Indonesia. It is possible, however, that in the future the political requirements would attached in the financial aid package. If that is the case, the tension could not be avoided. So far, Indonesian government has sent a strong message to the foreign countries that Aceh is still part of Indonesia, and any interference to this matter would mean the disrespect of Indonesian sovereignty.



## **H. Conclusion**

Japan as the world's second largest economy chose to be the aid great power instead political super power. Yet the global political changes that happened in the recent times, such as 911 incident and the domestic economic declining has induced the formulation of its foreign policy.

The Japan's financial assistance/ODA to the developing countries as the source of raw material has been the major element of its political diplomacy. However starting from late 90s, the ODA has been lost its immunity from public scrutiny and started to be the center of criticism. There's a shadow of doubt among the people about its effectiveness and, furthermore, usefulness for recovering domestic economic. The demand for a reform was intensively sounded. Starting this new millennium, ODA enters a period of experimentation and change in the nation's development assistance program.

One of the reforms spotlighted in this paper is the people involvement in the ODA mechanism, both in formulation and evaluation process. This fact cannot be separated to the rise of NGOs movement in Japan starting from the mid of 1990s. The role of NGOs in the ODA

implementation will be very interesting to observe because it will give significant impact to the form of ODA package to the recipient country. So far, it is widely known that the ODA is highly tied yet it is limited to the commercial interest. The grant and loan were mainly required to be used for purchasing the product of Japanese companies. Now as the reform took place, there's a possibility that the string attached reach into the political domain, such as human rights and democracy.

In the case of Indonesia and Aceh Free Movement, the Japanese NGOs that concern to the implementation of human rights has urged to the Government of Japan to put more pressure to Indonesia. This would be the dilemmatic problem to the government, because on the other hand they have to protect the business interest of Japanese companies in Indonesia (hence, to protect the financial source support for those politicians). However, it is very important for both countries to keep their harmonize relationship that has been established so far for the economic reason. In this case the government of Japan should be careful in handling the issue of ODA as a political pressure to Indonesia, otherwise both will suffer for any flawed policies.

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